

**Baku Steel Company LLC**

**Preliminary IFRS consolidated statement  
of financial position**

*As at 1 January 2021  
with independent auditor's report*

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## Independent auditor's report

To the Shareholders and Management of  
Baku Steel Company LLC

### **Opinion**

We have audited the preliminary IFRS consolidated statement of financial position and related notes of Baku Steel Company LLC ("the Group") as at 1 January 2021. It has been prepared as part of the Group's conversion to International Financial Reporting Standards (IFRS).

In our opinion, the accompanying preliminary IFRS consolidated statement of financial position of the Group as at 1 January 2021 is prepared, in all material respects, in accordance with the basis set out in Note 1, which describes how IFRS have been applied under IFRS 1, including the assumptions Management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when Management prepares its first complete set of financial statements as at 31 December 2022.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of preliminary IFRS consolidated statement of financial position* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material uncertainty related to going concern**

We draw attention to Note 2.3 of the preliminary IFRS consolidated statement of financial position, which indicates that the Group's current liabilities exceeded its current assets by 133,736 thousand manats. As stated in Note 2.3, these events and conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

***Emphasis of matter - Basis of accounting and restriction on use***

We draw attention to the fact that Note 1 explains why there is a possibility that the preliminary IFRS consolidated statement of financial position may require adjustment before constituting the final consolidated statement of financial position. Moreover, we draw attention to the fact that, under IFRS, only a complete set of financial statements comprising a statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement, together with comparative financial information and notes, can provide a fair presentation of the Group's financial position, results of operations and cash flows in accordance with IFRS. Our opinion is not modified in respect of this matter.

This report is intended solely for the information and use of Management of the Group in connection with its conversion of the basis of the preparation of the consolidated financial statements to IFRS. It should not be used for any other purpose or by other parties.

***Responsibilities of Management for the preliminary IFRS consolidated statement of financial position***

Management is responsible for the preparation of this preliminary IFRS consolidated statement of financial position in accordance with the basis set out in Note 1, and for such internal control relevant to the preparation of the preliminary IFRS consolidated statement of financial position that is free from material misstatement, whether due to fraud or error.

In preparing the preliminary IFRS consolidated statement of financial position, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Management is responsible for overseeing the Group's financial reporting process.

***Auditor's responsibilities for the audit of preliminary IFRS consolidated statement of financial position***

Our objectives are to obtain reasonable assurance about whether the preliminary IFRS consolidated statement of financial position as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this preliminary IFRS consolidated statement of financial position.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the preliminary IFRS consolidated statement of financial position, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Ernst & Young Holdings (CIS) B.V.*

Baku, Azerbaijan

23 December 2021

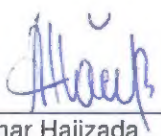


**Preliminary IFRS consolidated statement of financial position****As at 1 January 2021***(Amounts presented are in thousands of Azerbaijani manats)*

	Notes	1 January 2021
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	5	127,758
Prepayments	6	14,760
Deferred tax asset		3,092
Other non-current assets		1,950
Intangible assets		25
<b>Total non-current assets</b>		<b>147,585</b>
<b>Current assets</b>		
Inventories	7	16,008
Trade and other receivables	9	938
Prepayments	6	9,699
VAT receivable	10	8,400
Cash and cash equivalents	8	896
<b>Total current assets</b>		<b>35,941</b>
<b>Total assets</b>		<b>183,526</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Authorized capital	11	36,000
Accumulated deficit		(60,950)
<b>Equity attributable to equity holders of the parent</b>		<b>(24,950)</b>
Non-controlling interests		1,978
<b>Total equity</b>		<b>(22,972)</b>
<b>Non-current liabilities</b>		
Long-term borrowings	13	36,240
Provisions	14	581
<b>Total non-current liabilities</b>		<b>36,821</b>
<b>Current liabilities</b>		
Trade and other payables	15	72,516
Contract liabilities	16	32,146
Income and other taxes payable	12	35,572
Short-term and current portion of long-term borrowings and interest payable	13	27,508
Provisions	14	1,935
<b>Total current liabilities</b>		<b>169,677</b>
<b>Total liabilities</b>		<b>206,498</b>
<b>Total equity and liabilities</b>		<b>183,526</b>

Signed and authorized for release on behalf of the Group on 23 December 2021.

  
 Mr. Kamal Ibrahimov  
 Chief Executive Officer

  
 Mr. Anar Hajizada  
 Chief Financial Officer

The accompanying notes form an integral part of preliminary IFRS consolidated statement of financial position.

*(Amounts presented are in thousands of Azerbaijani manats)***1. The Group and its operations**

Baku Steel Company LLC (the "Group") is a limited liability company incorporated in the Republic of Azerbaijan Republic on 21 June 2001. The registered address of the Group is 5 Mir-Jalal Street, AZ1029, Baku, Azerbaijan.

The Group's owners are Politon LLC and Mr. Ali Karimov with holding interests of 75% and 25%, respectively, as of 1 January 2021. The Group is ultimately owned by Mr. Iman Guliyev.

The Preliminary IFRS Consolidated statement of financial position includes the preliminary IFRS statements of financial position of the Group and its subsidiaries (collectively referred to as the "Group") listed in the following table:

Name	Country of incorporation	% equity interest
		1 January 2021
Baku Oxygen Company OJSC	The Republic of Azerbaijan	100.00%
Azertekrargarametal OJSC	The Republic of Azerbaijan	98.81%
Bakelektroqaynaq OJSC	The Republic of Azerbaijan	97.89%
Baku Steel Construction OJSC	The Republic of Azerbaijan	80.03%
Baki ElectroStamp OJSC	The Republic of Azerbaijan	80.00%
Xezerboru OJSC	The Republic of Azerbaijan	95.00%
Azerboru OJSC	The Republic of Azerbaijan	97.39%
MEMAR SA	The Republic of Azerbaijan	100.00%

The Group is principally engaged in the production of finished and semi-finished metal casting products sold on local market and exported abroad.

**2.1 Basis of preparation**

This preliminary IFRS consolidated statement of financial position has been prepared following the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS), as part of the Group's preparation for the future adoption of IFRS. When the Group prepares its first complete set of consolidated IFRS financial statements, as at and for the year ending 31 December 2022, they will be prepared in accordance with the Standards and Interpretations in effect as at that date.

Accordingly, this preliminary IFRS consolidated statement of financial position, which is intended to form the comparative information in the Group's first complete set of consolidated financial statements, has been prepared by Management using its best knowledge of the Standards and Interpretations expected to be in effect at 31 December 2022, and the accounting policies expected to be applied in the Group's first complete set of consolidated IFRS financial statements. Any changes to such Standards, Interpretations or accounting policies may require adjustment to this preliminary IFRS consolidated statement of financial position before they comprise such comparative information.

The principal accounting policies applied in the preparation of this preliminary IFRS consolidated statement of financial position are set out below. All amounts in this preliminary IFRS consolidated statement of financial position are presented in thousands Azerbaijani manat ("AZN"), unless otherwise stated.

The preliminary IFRS consolidated statement of financial position has been prepared on a historical cost basis.

(Amounts presented are in thousands of Azerbaijani manats)

## 2.2 Basis of consolidation

Subsidiaries are all entities over which the Group has control, being the power to govern the financial and operating policies to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Specifically, the Group controls an investee if, and only if, the Group has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- ▶ Exposure, or rights, to variable returns from its involvement with the investee;
- ▶ The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement(s) with the other vote holders of the investee;
- ▶ Rights arising from other contractual arrangements;
- ▶ The Group's voting rights and potential voting rights.

The Group re-assesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

## 2.3 Going concern

The Group's preliminary IFRS consolidated statement of financial position has been prepared on a going concern basis, which presumes that the Group will continue its operations in the normal course of business for the foreseeable future.

As at 1 January 2021 the Group's current liabilities exceeded its current assets by AZN 133,736 giving rise to a material uncertainty of the Group's ability to continue as a going concern.

The Group's ability to continue as a going concern depends on the ability to generate sufficient cash inflows from sales of its metal products. This is dependent upon the availability of scrap metal, sustained levels of production as well as sale price of the final products. On 11 November 2020 Azerbaijan has re-gained the control over Nagorno-Karabakh region of the Azerbaijan Republic. Management believes that the sources of scrap metal for the Group increased significantly as a result of the above. Furthermore, the government of Azerbaijan Republic has started the process rehabilitation and restoration of the liberated territories which will significantly increase a demand for the metal products.



*(Amounts presented are in thousands of Azerbaijani manats)*

## 2.3 Going concern (continued)

Management also expects to increase the exports of its metal products by taking advantage of competitive pricing compared to other major producers in the region (Turkey, Iran and Ukraine). In addition to the above Management of the Group is in the process of improvement of the operational efficiency of the Group.

The Group therefore believes that it will be able to continue as a going concern for the foreseeable future.

## 2.4 Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its preliminary IFRS consolidated statement of financial position:

### Current versus non-current classification

The Group presents assets and liabilities in the preliminary IFRS consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- ▶ Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- ▶ Held primarily for the purpose of trading;
- ▶ Expected to be realised within twelve months after the reporting period; or
- ▶ Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- ▶ It is expected to be settled in the normal operating cycle;
- ▶ It is held primarily for the purpose of trading;
- ▶ It is due to be settled within twelve months after the reporting period; or
- ▶ There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### Foreign currency translation

The Group's Preliminary IFRS consolidated statement of financial position is presented in Azerbaijani manat, which is also the Parent's functional currency as the majority of the revenues, costs, inventory purchased, and trade liabilities are either priced, incurred, payable or otherwise measured in Azerbaijani manat. For each entity, the Group determined the functional currency and items included in the financial statements are measured using that functional currency.

The operations in the Group entities of which currency differ from the functional currency of the Group and not already measured in the Group's functional currency are translated by following the below step:

- ▶ Monetary assets and liabilities not already measured in the functional currency of respective Group entity are translated into the functional currency at the closing rate at the date of that statement of financial position.

*(Amounts presented are in thousands of Azerbaijani manats)***2.4 Summary of significant accounting policies (continued)****Foreign currency translation (continued)**

Foreign exchange gains and losses resulting from the re-measurement into the functional currencies of respective Group's entities are to be recognized in future consolidated statement of profit or loss or other comprehensive income.

*Rates of exchange*

The exchange rates at year-end used by the Group in the preparation of the preliminary IFRS statement of financial position are as follows:

	<b>As at 1 January 2021</b>
USD/AZN	1.7000
EUR/AZN	2.0890

**Financial instruments – key measurement terms**

Depending on their classification financial instruments are carried at fair value, or amortized cost as described below.

*Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable

(Amounts presented are in thousands of Azerbaijani manats)

## 2.4 Summary of significant accounting policies (continued)

### Financial instruments – key measurement terms (continued)

to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit loss (ECL). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related statement of financial position items.

*The effective interest rate method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

### Financial assets

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

(Amounts presented are in thousands of Azerbaijani manats)

## 2.4 Summary of significant accounting policies (continued)

### Financial assets (continued)

#### *Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- ▶ Financial assets at amortised cost (debt instruments);
- ▶ Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- ▶ Financial assets at fair value through profit or loss.

#### *Financial assets at amortised cost (debt instruments)*

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables.

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group has no debt instruments at fair value through OCI.

#### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's preliminary IFRS consolidated statement of financial position) when:

- ▶ The rights to receive cash flows from the asset have expired; or
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(Amounts presented are in thousands of Azerbaijani manats)

## 2.4 Summary of significant accounting policies (continued)

### Financial assets (continued)

#### *Derecognition (continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Impairment of financial assets*

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs.

Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

### Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, short-term and long-term borrowings.



(Amounts presented are in thousands of Azerbaijani manats)

## 2.4 Summary of significant accounting policies (continued)

### Financial liabilities (continued)

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

#### *Loans and borrowings*

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

#### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss and other comprehensive income.

### Property, plant and equipment

Property, plant and equipment comprise plants and administrative offices attached to plant and other offices and equipment used for Management's operations. All items of property, plant and equipment and intangible assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items, including relevant borrowing costs.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

*(Amounts presented are in thousands of Azerbaijani manats)***2.4 Summary of significant accounting policies (continued)****Property, plant and equipment (continued)**

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Machinery and equipment	15-30
Buildings	10-50
Vehicles	10-20
Office equipment and furniture	5-10
Other fixed assets	3-5

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. Depending on use of the underlying asset, depreciation charges are further allocated to operating expenses and component of inventory cost.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

**Construction-in-progress**

Construction in progress is stated at cost, net of accumulated impairment losses, if any. Construction-in-progress represents capital construction of projects not yet completed. The construction-in-progress balance includes the assets under construction by the Group, the assets constructed by third parties and complete assets that are not yet ready for intended use. The assets are transferred from construction-in-progress to the respective category of property, plant and equipment and depreciation of these assets commences at the time when the assets are put into operation.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss and other comprehensive income when the asset is derecognized.

(Amounts presented are in thousands of Azerbaijani manats)

## 2.4 Summary of significant accounting policies (continued)

### Inventories

Inventories are valued at the lower of cost (determined using the weighted average method) and net realizable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- ▶ Raw materials: purchase cost based on weighted average cost method;
- ▶ Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

In-process inventory costs consist of direct production costs, site administration costs and allocated indirect costs, including depreciation. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### *Obsolete and slow-moving inventory*

The Group reviews and if required reduces the carrying value of inventory for the amount of obsolete and slow-moving items at each statement of financial position date. Such amount is estimated based on the value of obsolete inventory and percentage thresholds applied to slow-moving inventory depending on the frequency of use.

### Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

At the commencement date of a lease, the Group recognizes a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The Group is also required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group re-measures the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The Group recognizes the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of lease. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

The Group elected to use the exemptions applicable to the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has certain leases that are considered of low value.

### Impairment of non-financial assets

The Group assesses at each statement of financial position date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

*(Amounts presented are in thousands of Azerbaijani manats)*

## **2.4 Summary of significant accounting policies (continued)**

### **Impairment of non-financial assets (continued)**

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed forecast calculations, which are prepared based on the Group's CGUs to which the individual assets are allocated. These forecast calculations generally cover a period of five years.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset, except for a property previously revalued and the revaluation taken to other comprehensive income. In this case, the impairment is recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

### **Trade and other receivables**

Trade and other receivables are stated net of an allowance for receivables identified as doubtful. The Group provides an allowance for doubtful accounts based on Management's review of trade and other receivables and an assessment of the likelihood of delinquency of these account balances.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand as well as the VAT deposit account with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts, if any.

### **Deposits with banks**

Deposits with banks comprises cash held at bank with original maturity of more than three months and subject to interest income. The Group provides deposit as a guarantee for the letters of credit from the same bank.

### **Prepayments**

Prepayments are recognized and carried at the original amount of payment less provision for any amount at risk of non-performance by the counterparty. Prepayments are classified as either current or non-current depending on the expected period of expiration and the nature of goods and services purchased.

(Amounts presented are in thousands of Azerbaijani manats)

## 2.4 Summary of significant accounting policies (continued)

### Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

### Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

### Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

### VAT receivables and other current assets

#### VAT receivable

VAT receivables represent the net amount of claimable VAT less property tax, land tax and other taxes due to budget.

VAT receivable relates to purchases which have not been settled at the date of the consolidated statement of financial position. VAT receivable is reclaimable against sales VAT upon payment for the purchases.

The difference between claimable input VAT and output VAT related to sales is receivable from the state budget. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of sales and purchases VAT on a net basis. VAT related to sales and purchases is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as an asset or liability.

#### VAT payable

VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases that have been settled at the date of the consolidated statement of financial position is deducted from the amount payable. In addition, VAT related to sales that have not been settled at the date of the consolidated statements of financial position (VAT deferred) is also included in VAT payable. Where provision is made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.



(Amounts presented are in thousands of Azerbaijani manats)

## 2.4 Summary of significant accounting policies (continued)

### Current and deferred income tax

The tax expense for the period comprises current and deferred tax.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the date of the consolidated statements of financial position in the countries where the parent and its subsidiaries operate and generate taxable income. Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on unused tax losses or tax credits of the Group. Deferred income tax is determined using tax rates and laws that are effective by the reporting date.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### State Social Protection Fund contributions

In accordance with the *Law on Social Insurance of the Republic of Azerbaijan*, as amended, the Group is obligated to contribute to the State Social Protection Fund of the Republic of Azerbaijan (the "Social Fund") on behalf of its employees that are citizens of the Republic of Azerbaijan.

### Transactions with related parties

For the purposes of this preliminary IFRS consolidated statement of financial position, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions that unrelated parties might not, and transactions between related parties may not be executed on the same terms, conditions and amounts as transactions between unrelated parties. It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arms' length basis.

### Trade and other payables

Trade and other payables (including accrued liabilities) are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

(Amounts presented are in thousands of Azerbaijani manats)

### 3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's preliminary IFRS consolidated statement of financial position of financial position requires Management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

#### Judgements

In the process of applying the Group's accounting policies, Management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in preliminary IFRS consolidated statement of financial position of financial position:

##### *Initial recognition of related party transactions*

In the normal course of business, the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

#### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when this preliminary IFRS consolidated statement of financial position was prepared and has used its judgments and made estimates in determining the amounts recognized in the preliminary IFRS consolidated statement of financial position. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

##### *Useful life of property, plant and equipment*

The estimation of the useful lives of items of property, plant and equipment and other properties is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance program; and (c) technical or commercial obsolescence arising from changes in market conditions.

##### *Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flows model.

(Amounts presented are in thousands of Azerbaijani manats)

### 3. Significant accounting judgements, estimates and assumptions (continued)

#### Estimates and assumptions (continued)

##### *Taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. Management undertakes detailed tax review to assess potential tax liabilities and recognizes respective penalties for transactions subject to varying interpretations under tax legislation of the Azerbaijan Republic where the risk of potential taxes is assessed as probable.

##### *Provisions*

The Group has recognized a provision for future payment of disabilities of its employees. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates and life expectancy as 70 and 77 for men and women, respectively (Note 14).

##### *Provision for expected credit losses of trade receivables and contract assets.*

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

##### *Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- ▶ When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

(Amounts presented are in thousands of Azerbaijani manats)

### 3. Significant accounting judgements, estimates and assumptions (continued)

#### Estimates and assumptions (continued)

##### *Deferred tax (continued)*

Deferred tax assets are recognised for: all deductible temporary differences; the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences. The carry forward of unused tax credits and unused tax losses can be utilised, except:

- ▶ When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(Amounts presented are in thousands of Azerbaijani manats)

#### 4. Changes in accounting policies

##### Adoption of new or revised standards and interpretations and new accounting pronouncements

###### *New and amended standards and interpretations*

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's first complete set of consolidated IFRS financial statements, are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

###### *Amendments to IAS 1: Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: What is meant by a right to defer settlement:

- ▶ That a right to defer must exist at the end of the reporting period;
- ▶ That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- ▶ That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation

###### *Reference to the Conceptual Framework – Amendments to IFRS 3*

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations – Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Leases*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The Group will apply these amendments when they become effective.

###### *Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16*

In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by Management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.



(Amounts presented are in thousands of Azerbaijani manats)

#### 4. Changes in accounting policies (continued)

##### Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

###### *New and amended standards and interpretations (continued)*

###### *Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37*

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

###### *IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter*

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

Paragraph 30 of IAS 8 requires entities to consider and disclose the potential impact of new and revised IFRSs that have been issued but are not yet effective. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective:

- ▶ IFRS 17 *Insurance Contracts* – is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group;
- ▶ Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets* between an Investor and its Associate or Joint Venture (effective date not decided);
- ▶ Amendments to IAS 1 and IAS 8: *Definition of Material* (effective date not decided);
- ▶ Amendments to IFRS 9: Fees in the '10 per cent' test for derecognition of financial liabilities – is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

The Management expect that most of the above noted new and amended standards are not applicable to the Group, while the adoption of remaining standards above will have no material impact on the financial statements in the period of initial application.

*(Amounts presented are in thousands of Azerbaijani manats)***5. Property, plant and equipment**

The carrying amount of property, plant and equipment ("PPE") as at 1 January 2021 is as follows:

	Land and buildings	Machinery and equipment	Construction- in-progress	Non- operational asset	Total
Historical cost	94,085	191,937	13,609	8,304	307,935
<b>At 1 January 2021</b>	<b>94,085</b>	<b>191,937</b>	<b>13,609</b>	<b>8,304</b>	<b>307,935</b>
Accumulated depreciation and impairment	(39,668)	(136,265)	-	(4,244)	(180,177)
<b>At 1 January 2021</b>	<b>(39,668)</b>	<b>(136,265)</b>	<b>-</b>	<b>(4,244)</b>	<b>(180,177)</b>
<b>Net book value</b>					
<b>At 1 January 2021</b>	<b>54,417</b>	<b>55,672</b>	<b>13,609</b>	<b>4,060</b>	<b>127,758</b>

**6. Prepayments**

Prepayments comprised the following as at 1 January:

	2021
Prepayments for raw materials and related services (current)	9,699
Prepayments for purchase of equipment (non-current)	14,656
Prepayments for capital expenditures (non-current)	104
<b>Total prepayments</b>	<b>24,459</b>

**7. Inventories**

Inventories comprised the followings as at 1 January:

	2021
Raw materials and supplies	9,872
Semi-finished and finished goods	6,018
Work in progress	118
<b>Total inventories</b>	<b>16,008</b>

*(Amounts presented are in thousands of Azerbaijani manats)***8. Cash and cash equivalents**

Cash and cash equivalents comprised the following as at 1 January:

	<b>2021</b>
Cash on hand, AZN	512
USD denominated bank balances	343
AZN denominated bank balances	35
EUR denominated bank balances	1
VAT deposit account, AZN	5
<b>Total cash and cash equivalents</b>	<b>896</b>

**9. Trade and other receivables**

Trade and other receivables comprised the following as at 1 January:

	<b>2021</b>
Amounts receivable from third parties	20,865
Amounts receivable from related parties	7,378
	28,243
Bad debts provision	(23,093)
Allowance for expected credit loss	(4,212)
<b>Total trade receivables</b>	<b>938</b>

**10. VAT receivable**

VAT receivable amount related to purchases which have not been settled at the end of the year, and thus not claimed in tax declarations and prepayment on construction works which can be claimed only after the vendor performs the associated services.

**11. Authorized capital****Authorized capital**

The Group's registered and paid charter capital comprises AZN 36,000 as at 1 January 2021. The charter capital and voting rights are allocated among the owners of the Group according to the ownership structure.

*(Amounts presented are in thousands of Azerbaijani manats)***12. Income and other taxes payable**

Income and other taxes payable comprised the following as at 1 January:

	<b>2021</b>
Income tax payable	2,397
Personal income tax payable	4,848
Provision for tax sanctions	18,638
Other taxes payable	9,689
<b>Total income and other taxes payable</b>	<b>35,572</b>

Deferred tax assets and liabilities comprised the following as at:

	<b>1 January 2021</b>
<b>Deferred tax liability</b>	
Other non-current assets	(258)
Trade and other payables	(201)
Prepayments	(43)
	<b>(502)</b>
<b>Deferred tax asset</b>	
Trade and other receivables	932
Property, plant and equipment	177
Current provisions	387
Prepayments	905
Long-term borrowings	491
Interest payable	586
Non-current provisions	116
	<b>3,594</b>
<b>Net deferred tax asset</b>	<b>3,092</b>

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

**13. Borrowings**

The breakdown of the Group's borrowings as at 1 January 2021 is presented in the tables below:

	<b>Maturity</b>	<b>Interest</b>	<b>Carrying amount</b>
<b>Current interest-bearing loans and borrowings</b>			
Loan from International Bank of Azerbaijan in AZN	August 2026	10%	800
Loans from the International Bank of Azerbaijan in foreign currency	August 2026	5%	1,360
Loan from Xalq Bank in foreign currency	December 2021	5%	3,085
Loans from Bank Standard in AZN	On demand	8%	9,250
Loans from Bank Standard in AZN	On demand	6%	10,084
Interest payable			2,929
			<b>27,508</b>
<b>Non-current interest-bearing loans and borrowings</b>			
Loan from International Bank of Azerbaijan in AZN	August 2026	10%	10,400
Loan from International Bank of Azerbaijan in foreign currency	August 2026	5%	25,840
			<b>36,240</b>
<b>Total borrowings</b>			<b>63,748</b>

*(Amounts presented are in thousands of Azerbaijani manats)***13. Borrowings (continued)****Bank Standard Loans**

The Group obtained two loans for AZN 12.8 thousand and AZN 11 thousand from Bank Standard CJSC ("Bank") in May and September 2014, respectively. The Bank, in its turn, signed two loan agreements with the Central Bank of Azerbaijan Republic ("CBAR") for financing of the mentioned loans. The Group acts as a guarantor for the first loan provided to the Bank by CBAR under the guarantee agreement and, in addition, pledged its 843,113 ordinary shares in Bakelektroqaynaq OJSC ("Shares") to CBAR under these arrangements. For the second loan, the Group pledged both the Shares and the property owned by Azertekrarqarametal OJSC.

On 1 October 2016, the Bank filed for bankruptcy and Azerbaijan Deposit Insurance Fund ("ADIF") was appointed as a liquidator. Starting from 2017, the liquidator has suspended loan repayments to CBAR and, therefore, the Group stopped making respective loan repayments to the Bank. Given the circumstances, CBAR has a right to demand from the Group the repayment of the outstanding loan balances due from the Bank under the guarantee and pledge agreements.

Taking into account the practical aspects, as well as ongoing discussions and negotiations between the Group, CBAR and ADIF, Management has recognized a provision for additional obligations under the guarantee and pledge agreements in the amount of AZN 6,818 thousand as at 1 January 2021.

**14. Provisions****Provision for injuries**

In accordance with the Labor Code of the Republic of Azerbaijan, employees who have been injured and whose health has been adversely affected (occupational disease) as a result of an accident during the production process must be compensated for the loss associated with such accident or disease if, and only if, an employer is found guilty (partially or fully) based on the results of investigation carried out by the respective governmental authorities. The Group calculated the present value of the long-term injury payments to employees using a discount rate of 5.43% as at 1 January 2021.

Non-current portion of the Group's provision is represented by long-term injury payments due 2021-2049.

**Provision for unused vacation**

The Group has accepted the responsibility to compensate for the unused vacation days of the personnel whose service contracts are still valid as of each reporting date. Provision for unused vacation for each financial statement date is calculated as average daily salary for the preceding twelve months multiplied by number of outstanding days for each respective employee. Current portion of provision is represented by the Group's liabilities for unused vacation of employees and current portion of disability payments due within 2020 and other provisions.

**Provision for uncertain tax positions and related penalties and interest**

Management has assessed, based on its interpretation of the relevant tax legislation that is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. Accordingly, the Group has created provision for the associated undeclared taxes and the related penalties and interest. The balance 1 January 2021 is expected to be either fully utilized or released when the inspection rights of the tax authorities with respect to the relevant tax returns expire.

	Disability payments	Unused vacation	Uncertain tax positions	Other provisions (Note 13)	Total
Carrying amount at 1 January 2021	659	1,857	18,638	6,818	27,972



*(Amounts presented are in thousands of Azerbaijani manats)***14. Provisions (continued)****Provision for uncertain tax positions and related penalties and interest (continued)**

The division of provisions between current and non-current was as below:

	Disability payments	Unused vacation	Uncertain tax positions	Other provisions (Note 13)	Total
At 1 January 2021	659	1,857	18,638	6,818	27,972
Current	78	1,857	18,638	6,818	27,391
Non-current	581	–	–	–	581

**15. Trade and other payables**

Trade and other payables represent amounts due to suppliers for the inventories, production machinery and equipment received as at 1 January 2021:

	1 January 2021
Trade payables	33,363
Other payables	16,024
Payable for scrap metal and other raw materials	20,371
Payable for construction services	2,758
<b>Total trade and other payables</b>	<b>72,516</b>

**16. Contract liabilities**

Contract liabilities are represented by the amounts received from customers for goods not collected from warehouse as of the end of the reporting period.

**17. Balances and transactions with related parties**

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as at 1 January 2021 is detailed below:

	Amounts owed to related parties	Amounts owed by related parties
Azeri Steel-2009 LLC	2,412	184
SEMOCO LLC	391	–
Baku Non-Ferrous and Foundry	–	108
S-Steel Company Ltd	–	135
AKTAU Steel	2	–
<b>Total</b>	<b>2,805</b>	<b>427</b>

Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided for any related party receivables or payables.

**Other related parties** are entities under common control with the Group. All transactions were conducted at terms close to arm's length basis in a manner similar to transactions with third parties.

(Amounts presented are in thousands of Azerbaijani manats)

## 17. Balances and transactions with related parties (continued)

### Key Management compensation

Key Management personnel comprise members of the Management of the Group, which includes three persons. Total payable to key Management personnel provided by the Group including bonuses and other benefits comprised KAZN 24 as at 1 January 2021.

## 18. Financial risk management objectives and policies

### Financial risk factors

The Group's principal financial liabilities comprise loans and borrowings, trade payables and other current liabilities. The main purpose of these financial instruments is to manage short-term cash flows and raise finance for the Group's operating and investing activities. The Group's financial assets are comprised the trade receivables, other current and non-current assets, and cash and cash equivalents.

Management believes the amounts presented as financial instruments in the accompanying financial statements are reasonable estimates of their fair values. The fair value of cash and cash equivalents, trade payables, loans and borrowings and other monetary current assets and liabilities are estimated to approximate carrying value due to their short-term nature. Carrying values of long-term borrowings, approximate their fair values as all debt was obtained under market conditions, which were still applicable at respective period end.

The main risk arising from the Group financial instruments are foreign currency risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks which are summarized below.

#### (i) Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates.

The Group's operations are carried out primarily in the Republic of Azerbaijan, and as such, the Group's transactions are significantly performed in AZN. Meanwhile, the majority of the Group's purchases of property and equipment and inventory, as well as services provided by third party suppliers and trade payables vendors are denominated on US dollars or euro.

(Amounts presented are in thousands of Azerbaijani manats)

## 18. Financial risk management objectives and policies (continued)

### Financial risk factors (continued)

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's construction activities, operating activities and related borrowings denominated in a currency other than the Group's functional currency. The foreign currency risk, in particular, relates to cash and cash equivalents, trade and other receivables, accrued liabilities, trade and other payables and loan due to banks.

The Group did not hedge the financial instruments denominated in foreign currencies.

The Group's sensitivity analysis has been determined based on the Group's net transaction exposure as at 1 January 2021.

#### (ii) Interest rate risk

The Group is subject to interest rate risk on financial liabilities and assets with variable interest rates. To mitigate this risk, the Group's Management performs periodic analysis of the current interest rate environment and depending on that analysis Management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case where the change in the current market fixed or variable interest rates is considered significant Management may consider refinancing a particular debt on more favourable interest rate terms.

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new debts Management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable over the expected period until maturity.

As at 1 January 2021 the Group's interest bearing liabilities are not significantly affected by fluctuating interest rate.

Credit risk, or the risk of counterparties' default, is controlled by the application of credit approvals, limits and monitoring procedures. The extent of the Group's credit risk exposure is represented by the aggregate balance of cash and cash equivalents and trade and other receivable as at 1 January 2021.

The Group evaluates the concentration of risk with respect to trade receivables as low, as it deals only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

### Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in below table.

*(Amounts presented are in thousands of Azerbaijani manats)***18. Financial risk management objectives and policies (continued)****Trade receivables (continued)**

The expected loss allowance as at 1 January 2021 (on adoption of IFRS 9) was determined as follows for trade receivables from customers:

<b>1 January 2021</b>	<b>Less than 30 days past due</b>	<b>30-60 days past due</b>	<b>61-90 days past due</b>	<b>91-360 days past due</b>	<b>More than 360 days past due</b>	<b>Total</b>
Gross carrying amount of trade receivables	785	107	724	831	2,703	5,150
Less ECL provision	(581)	(84)	(584)	(260)	(2,703)	(4,212)
<b>Net trade receivables</b>	<b>204</b>	<b>23</b>	<b>140</b>	<b>571</b>	<b>-</b>	<b>938</b>

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category are approved annually by Management.

In assessing the credit quality of financial assets the Group considers the nature of counterparty, historical information about counterparty, default rates and any other available information which can be used to assess credit quality.

**Liquidity risk**

The Group monitors its risk to a shortage of funds by reviewing its net financial debt indicator on a regular basis. The net financial debt represents the difference between total financial liabilities and cash and cash equivalents.

The Group's objective is to maintain a balance between continuity of funding and flexibility using bank overdrafts.

The tables below summarize the maturity profile of the Group's financial liabilities at 1 January 2021 based on contractual undiscounted payments:

<b>As at 1 January 2021</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
Loans and borrowings	16,838	6,331	43,734	66,903
Trade and other payables	72,516	-	-	72,516
	<b>89,354</b>	<b>6,331</b>	<b>43,734</b>	<b>139,419</b>

**Capital management**

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages the capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may, within the limits allowed by the relevant loan agreements, obtain additional borrowing on the market, adjust the amount of dividends paid to shareholders.

The Group monitors its capital using gearing ratio, which is net debt, divided by total equity plus net debt.

*(Amounts presented are in thousands of Azerbaijani manats)***18. Financial risk management objectives and policies (continued)****Capital management (continued)**

The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

	<b>1 January 2021</b>
Borrowings	63,748
Trade and other payables	72,516
Less: cash and cash equivalents	(896)
<b>Net debt</b>	<b>135,368</b>
Total equity	(22,972)
<b>Equity and net debt</b>	<b>112,396</b>
<b>Gearing ratio</b>	<b>120%</b>

**19. Contingencies, commitments and operating risks****Operating environment**

As an emerging market, at the present time the Republic of Azerbaijan does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy.

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government as well as crude oil prices and stability of Azerbaijani manat.

The Azerbaijan economy has been negatively impacted by decline of oil prices and devaluation of Azerbaijani manat during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth.

In response to these challenges, Azerbaijani government announced plans to accelerate reforms and support financial system. On 6 December 2016 President of the Republic of Azerbaijan approved *Strategic Road Maps for the National Economy and Main Economic Sectors of Azerbaijan*. The road maps cover 2016-2020 development strategy, long-term outlook up to 2025 and vision beyond.

The Group's Management is monitoring economic developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

While Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and can be estimated reliably.



(Amounts presented are in thousands of Azerbaijani manats)

## 19. Contingencies, commitments and operating risks (continued)

### Operating environment (continued)

#### *COVID-19 pandemic*

During 2020, the global economy was negatively impacted by the spread of the coronavirus pandemic (COVID-19).

During March-August 2020, the increasingly restrictive lockdown measures to combat COVID-19 in many countries significantly reduced economic activity and aggregate spending levels. Social distancing and quarantine measures resulted in the closure of retail, transport, travel, catering, hotel, entertainment and many other businesses. International trade was also significantly reduced. Finally, oil prices tumbled to historic lows but moderately recovered by the end of the year. A support package was introduced by the Government and CBAR to counter the economic downturn caused by COVID-19. These measures include, but are not limited to, subsidized lending to affected industries, payments to unemployed individuals and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

During 2020, the CBAR refinancing rate was reduced from 7.25% to 6.25%. Finally, significant foreign currency sales were made to maintain the stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the year.

By June-July 2020, many countries started to demonstrate signs of reduced spread of the pandemic. Governments started to gradually lift or ease restrictions. This tendency supported a recovery in global financial and commodity markets. However, the peak of the pandemic in Azerbaijan was reached during the months of October-December 2020, and as a result the lockdown measures became even more stringent. These measures resulted in a gradual reduction of coronavirus cases and elimination of most lockdown measures subsequently on 18 January 2021.

#### *The Second Karabakh War*

The Second Karabakh war started on 27 September 2020 and ended on 10 November 2020 with the signing of a ceasefire statement by President of the Republic of Azerbaijan, Prime Minister of the Republic of Armenia and President of the Russian Federation. As of the date of the approval of this preliminary IFRS consolidated statement of financial position there are no major violations of the ceasefire agreement.

As mentioned in Note 2.3 Management believes that this will create additional opportunities for the Group due to an increase of available scrap metal for the Group and increased construction and restoration activities of the liberated territories by the government of the Republic of Azerbaijan. Moreover, Management of the Group expects increase in nominal GDP levels of Azerbaijan in the foreseeable future which will be caused by large infrastructure projects on liberated lands as well as due to unblocking of economic and transport communications in the region.

#### *Other considerations*

There continues to be uncertainty regarding economic growth, access to capital and cost of capital, which could adversely affect the Group's future results and financial position and business prospects in a manner not currently determinable. Such adverse impacts could include limitation in access to external financing when required. Azerbaijani government announced plans to accelerate reforms and support to banking system in response to current economic challenges.

The Group's Management is monitoring these developments in the current environment and taking precautionary measures, it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

While Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

*(Amounts presented are in thousands of Azerbaijani manats)*

## **19. Contingencies, commitments and operating risks (continued)**

### **Operating environment (continued)**

This preliminary IFRS consolidated statement of financial position does not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable.

### **Taxes**

The legislation in the Republic of Azerbaijan is subject to varying interpretations and changes can occur frequently. Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. As such, additional taxes, penalties and interest may be assessed. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Fiscal periods remain open to review by the authorities with respect to taxes for three calendar years including the year of review.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained and potential tax liabilities of the Group will not exceed the amounts recorded in this preliminary IFRS consolidated statement of financial position.

### **Legal and other claims**

The Group is involved in lawsuits, claims, investigations and proceedings, including tax, environmental and anti-monopoly matters as part of the ordinary course of business. Management believes that there are no matters that will have a material adverse impact on the Group's business, financial position or results of operations.

On 29 January 2021 the former Chairman of Supervisory Board of Baku Steel Company, Mr. Rasim Mammadov, has been arrested by the state authorities of the Azerbaijan Republic. He was accused of unauthorized withdrawal and misappropriation of the Group's assets. As at the date of authorisation for issuance of this preliminary IFRS consolidated statement of financial position the investigation was still in progress and no official ruling has been announced. Subsequent to Mr. Mammadov's arrest, Mr. Kamal Ibrahimov has been appointed as the Chief Executive Officer of the Group. Management of the Group believes it has created all necessary provisions for the possible impact of this matter on the Group's preliminary IFRS consolidated statement of financial position.

## **20. Events after the reporting date**

Subsequent events have been evaluated through 23 December 2021, which is the date this preliminary IFRS consolidated statement of financial position was available to be issued.

There have been no subsequent events after 1 January 2021 that are expected to have a material effect on the Group's preliminary IFRS consolidated statement of financial position.